U.S. DEPARTMENT OF TRANSPORTATION
MARITIME ADMINISTRATION

STATEMENT OF

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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD
AND MARINE TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES

ON THE

MARITIME ADMINISTRATION'S BUDGET REQUEST FOR FISCAL YEAR 2009

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Mr. Chairman and Members of the Committee:

I welcome the opportunity to appear before you today to discuss the Maritime Administration's budget request for Fiscal Year 2009.

We are seeing important and exciting changes in the U.S. maritime industry, and at the Maritime Administration. The marine transportation industry is a highly sophisticated, global, intermodal transportation network that is absolutely vital to America's economy and continued prosperity. The industry is in a period of renewal and expansion. The Class of 2007 graduates from the Nation's maritime academies found many more opportunities for employment in the maritime industry than they have found in years past. Private industry is pointing the way toward greater use of our waterways to relieve congestion on the landside transportation system.

A half-century ago, the maritime industry pioneered the use of the container, now the standard instrument of trade all over the world. That paved the way for double-stacked trains and the development of door-to-door logistical operations, software and tracking systems. This evolution transformed the way we think about the business of moving freight and people, and has completely altered the transportation landscape and the role of transportation in our lives. Marine transportation is now a system of systems—an integrated network, not just within the United States, but around the world. It must operate seamlessly.

The Maritime Administration is developing a framework to help guide decisions on federal, state, local, and private involvement and investment in the overall Marine Transportation System. To that end, the Maritime Administration has realigned its headquarters offices, and established presence at the major U.S. gateway ports. These offices, which will eventually be located at 10 of the largest American ports, will identify bottlenecks and ways to improve freight movement. They will work with all stakeholders, promoting collaboration, and focusing particularly on planning and environmental issues.

The Maritime Administration's efforts this year have focused on issues with great possibilities for transforming the maritime industry and the transportation system: greater use of the nation's waterways, or the Marine Highway; initiatives that provide more opportunities for training and employment of American mariners; and facilitating the upgrading of port infrastructure.

In order to help ensure continued competitiveness, we must continue to tailor our maritime policy to the challenges of the 21st century. At this time, I would like to address the Maritime Administration's operations and training budget, summarize other provisions contained in the President's budget, and mention some of the Maritime Administration's accomplishments during the past year.

Operations and Training

The total budget request for the Maritime Administration for FY 2009 is $313,379,000, $117,848,000 of which is for the agency's operations and training. Operations and training activities include the costs incurred by headquarters and region staffs in the administration and direction of the various Maritime Administration programs such as the Maritime Security Program; port, intermodal and environmental activities; maritime labor, training and safety activities; monitoring compliance with cargo reservation statutes; administration of capital construction funds; and negotiation of agreements, understandings and arrangements to reduce barriers that restrict American access to foreign ports and markets.

The operations and training funds requested also include $61,358,000 for the operation of the United States Merchant Marine Academy (USMMA, Academy) at Kings Point, New York, and $10,987,000 for continuing assistance to the six state maritime academies. In FY2009, funding of $26,794,000 is requested for salary and benefits at the Academy, an increase of $1.1 million. The funding request for Academy operations is an increase of $3.5 million, spread over several different operational areas. Some of the areas funded under this budget activity include: the Academy food service contract; uniforms; medical requirements; IT hardware replacements and improvements; equipment for accreditation; janitorial services; transportation leases; environmental and occupational safety; and maintenance and repair needs.

The FY 2009 budget request for the Academy proposes funding for the Capital Improvements Master Plan (CIP) in the amount of $8.2 million to support high-priority

maintenance and repair projects such as Americans with Disabilities Act renovations; new roofs for Academy buildings; and other priority maintenance and repair projects. Major capital improvements have been postponed while we reexamine priorities in the CIP and complete resolution of financial management issues with Academy administration.

The USMMA and the six State maritime schools are the only educational institutions that produce merchant marine officer graduates with a four-year bachelors degree. These graduates have completed coursework in marine engineering and navigation; obtained a U.S. Coast Guard merchant marine officer's license; and practical shipboard training. They have first-hand experience in the mariner's environment, thus enabling them to enter this professional workforce with confidence and self-reliance. In peacetime, they create and operate efficient, cost-effective marine transportation systems. In times of conflict, they crew the ships that support our troops.

Since we are on the topic of the Academy and State schools, I cannot miss the opportunity to stress the importance of maritime education and training. In today's global economy, the maritime transportation system is becoming an even more vital part of our Nation's prosperity than it has ever been before. In 2006, foreign trade accounted for nearly 22 percent of our gross domestic product (GDP). Estimates project that by 2020, foreign trade will account for almost 35 percent of our national GDP. This will continue to place an emphasis on the marine transportation system as 95 percent of all foreign trade is moved by ship.

With an expanded reliance on foreign trade to the American economy, it is critically important to encourage and sustain American involvement and investment in the marine transportation system. This is important for the economy during times of peace and a matter of survival during times of war or national emergency.

Without trained and qualified people, the marine transportation industry cannot perform its essential role in the U.S. economy. Such a workforce must include licensed and unlicensed seamen, shore side and shipyard workers and managers and operators of ships and facilities. This need is especially acute given the global shortage of skilled seafarers.

An assessment of the current pool of licensed seafarers shows an adequate supply of officers for the current manning of the U.S. Jones Act fleet as well as the strategic sealift needs of our military. However, the ability to meet these needs is quickly reaching a critical juncture. Today, nearly 7,000 licensed American officers exist to crew our Jones Act and strategic sealift fleets with only 3,000 having sailed in the past two years. The average age of a licensed officer is over 42 years old and the average has gotten older over the past few years. The average Master and Chief Engineer is 51 years old, while the average Third Mate or Third Assistant Engineer (entry-level positions) is 33 and 35 years old, respectively.

All of these factors lead to one conclusion; the United States must increase its pool of qualified licensed officers in the next ten years or face drastic repercussions for both national and economic security. Those repercussions include an inability to move the military in time of war or emergency and the loss of an American presence in the international maritime sector. The FY 2009 request indicates the Administration's support for both the USMMA and the State Maritime Schools, and specifically addresses this concern by proposing to enhance the Student Incentive Payments (SIP) program at the State Maritime Schools with an administrative provision that amends the program to increase the annual SIP payment to students from $4,000 to $8,000 per academic year.

Maritime Security Program

The primary purpose of the Maritime Security Program (MSP) is to provide the Department of Defense (DOD) with assured access to commercial U.S.-flag ships crewed by U.S. citizen mariners to support national security requirements during war or national emergency. DOD recognizes the importance of a strong partnership with the commercial maritime industry to ensure our nation's defense and transportation needs are met. The MSP also ensures that the intermodal assets of current U.S.-flag ship operators will be readily available to DOD, and plays an important role in ensuring that our nation has enough mariners. The MSP fleet contributes approximately 2,400 mariner positions which are critical for national security crewing requirements. With a diminished U.S.–flag merchant marine, a substantial portion of the pool of U.S.-citizen mariners would disappear, impairing our ability to crew Ready Reserve Force ships and other government-owned ships needed for national security.

Recently, MSP ships have contributed greatly to Operation Enduring Freedom and Operation Iraqi Freedom. A total of 79 U.S.-flag commercial ships (including 63 current or former MSP ships) have either been employed by the Military Sealift Command (MSC) or the Military Surface Deployment and Distribution Command (SDDC) to transport military cargo. SDDC reports that since September 11, 2001, U.S.-flag commercial ships have delivered over 360,000 twenty foot equivalent units (TEUs) of containerized equipment and supplies to support U.S. troops in Iraq and Afghanistan. In addition, 34 of the 63 MSP ships utilized by MSC and SDDC also supported the rebuilding of Iraq.

Under the FY2009 request, the MSP would continue to be authorized at its full funding level of $174,000,000. The Maritime Security Act of 2003 authorized 60 ships for the MSP with payments up to $2.9 million per ship for FY 2009. These funds will solely provide for payments to MSP operators for the 60 enrolled ships. Program administration salaries and benefits are funded by the Operations and Training account.

MSP participants signed operating agreements with the Maritime Administration that provide for escalation of MSP payments to $2.9 million per ship per year in FY 2009. Escalating payments were designed to offset the impact of inflation and to

provide incentive for MSP operators to reinvest and upgrade their MSP fleet with newer, more modern and efficient vessels. Since October 1, 2005, ten MSP ships have been replaced with newer ships and an additional 19 ships currently in the program will be replaced with newer vessels before the MSP authorization expires in 2015.

Ship Disposal

By law, the Maritime Administration serves as the U.S. Government's disposal agent for merchant-type vessels of 1,500 gross tons or more, and has custody of approximately 120 obsolete ships owned by the Federal government that are available for disposal. These obsolete vessels are located at the James River Reserve Fleet site in Virginia, the Suisun Bay Reserve Fleet site in California and the Beaumont Reserve Fleet site in Texas

These vessels pose a risk to the local environment due to the presence of residual fuel, asbestos and solid polychlorinated biphenyls (PCBs); therefore, the disposal of these obsolete vessels continues to be one of the Maritime Administration's highest priorities. Our budget contains a request for $18,000,000 in FY 2009 for ship disposal. Specifically, funding of $15 million would enable the Maritime Administration to dispose of 14 vessels from our inventory and defray costs to develop and implement a risk mitigation plan for compliance with the National Invasive Species Act, and for testing and containment requirements related to the Clean Water Act.

Funding of $3 million would allow the agency to continue activities required to bring the Nuclear Ship Savannah (NSS) nuclear facilities into conformance with Nuclear Regulatory Commission SAFSTOR standards. SAFSTOR is the pre-decommissioning condition in which a non-operating nuclear power plant is safely husbanded for the period of time between cessation of operations and dismantlement, disposal and license termination. The NSS was originally laid-up and placed in retention long before the industry gained any substantial SAFSTOR experience. As a consequence, it is now known that the NSS requires additional work before it can be considered satisfactory for an additional period of extended retention. Such work includes the reduction of transient combustibles, reduction of radiological inventory, maintenance of the facility containment structure, and continued routine radiological surveillance and monitoring.

The Maritime Administration will continue to investigate all alternatives to expedite the disposal of its obsolete vessels at the least cost, and where possible on a cost-recovery basis, while giving consideration to worker safety and the environment. We intend to continue to utilize domestic recycling as the primary ship disposal method and will dispose of high and moderate priority ships that are available for disposal during FY 2009 through domestic recycling. Disposals through artificial reefing, deep sinking of ships with the U.S. Navy and donation to not-for-profit groups will also be used to the maximum extent possible. As opportunities arise, we will also continue to work with domestic and international organizations to accomplish vessel condition assessments,

hazardous materials identification, waste stream minimization, and applied technology testing on our obsolete vessels. We anticipate that in the future these activities could result in improved overseas hazardous materials remediation and ship recycling and lead to additional opportunities for environmentally safe and cost-effective vessel disposal internationally. Currently, there are no foreign facilities qualified to compete for future ship recycling contracts.

Recently, Congress again stressed the importance of ship recycling in the National Defense Authorization Act of 2008, which requires that within 30 days of enactment, the Secretary of Transportation convene a working group to review and make recommendations on best practices for the storage and disposal of obsolete vessels owned or operated by the Federal Government. This authority has been delegated to the Maritime Administrator, who will convene the working group. I have already issued invitations to participate in the first meeting of the working group, which will take place in early March. Participants will include senior representatives from the Coast Guard, the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, the United States Navy, and other Federal departments, and agencies. Concerned State environmental agencies may also be requested to participate. Among the vessels to be considered by the working group are federally owned or operated vessels that are to be disposed of or recycled; to be used as artificial reefs; or to be used for the Navy's Ship Sinking Exercise Program (SINKEX).

The working group will examine current storage and disposal policies, procedures, and practices for obsolete vessels owned or operated by Federal agencies; examine Federal and State laws and regulations governing such policies, procedures, and practices and any applicable environmental laws; and within 90 days after the date of enactment of the Act, submit a plan to Congress to improve and harmonize practices for storage and disposal of such vessels, including the interim transportation of such vessels. The plan will include a description of existing measures for the storage, disposal, and interim transportation of obsolete vessels owned or operated by Federal agencies in compliance with Federal and State environmental laws in a manner that protects the environment; a description of Federal and State laws and regulations governing the current policies, procedures, and practices for the storage, disposal, and interim transportation of such vessels; recommendations for environmental best practices that meet or exceed, and harmonize, the requirements of Federal environmental laws and regulations applicable to the storage, disposal, and interim transportation of such vessels; recommendations for environmental best practices that meet or exceed the requirements of State laws and regulations applicable to the storage, disposal, and interim transportation of such vessels; procedures for the identification and remediation of any environmental impacts caused by the storage, disposal, and interim transportation of such vessels; and recommendations for necessary steps, including regulations if appropriate, to ensure that best environmental practices apply to all such vessels.

As soon as practicable after the date of enactment of the Act, the head of each Federal department or agency participating in the working group, in consultation with the other Federal departments and agencies participating in the working group, shall

take such action as may be necessary, including the promulgation of regulations, under existing authorities to ensure that the implementation of the plan provides for compliance with all Federal and State laws and for the protection of the environment in the storage, interim transportation, and disposal of obsolete vessels owned or operated by Federal agencies.

The Act requires the Secretary of Transportation and the Secretary of Defense, in consultation with the Administrator of the Environmental Protection Agency, ensure that environmental best practices are observed with respect to the storage, disposal, and interim transportation of obsolete vessels owned or operated by the Department of Defense and that requirements of environmental law are to be complied with in the implementation of Section 3503.

To facilitate taskings of the working group, the Maritime Administration also has undertaken substantial environmental management actions to upgrade its ship disposal program. For example, the Environmental Excellence Initiative, inaugurated one year ago, includes an interdisciplinary and comprehensive study to recommend best management practices for the fleet for incorporation into our action plan and the Environmental Assessment of fleet management and disposal. These efforts, as well as closer coordination with other interested agencies, also will facilitate the working group and the adoption of a unified Federal position before various state interests and assist in the resolution of the current lawsuit brought by the Natural Resources Defense Council.

As you can see, Mr. Chairman and Members of the Panel, we have put a great deal of thought and effort into determining the best options for disposing of the backlog of obsolete NDRF vessels. We are making progress. Since October 1, 2007, seven vessels have departed the fleet sites – six of those since January 1, 2008. I appreciate your continued interest and request your support in this matter, and assure you that ship disposal is of utmost importance to the Department.

The National Defense Reserve Fleet and the Ready Reserve Force

The National Defense Reserve Fleet (NDRF) was established in 1946 to meet reserve sealift requirements for emergencies and national defense purposes. NDRF vessels are primarily located at three anchorages: James River, Virginia; Beaumont, Texas; and Suisun Bay, California. There are currently 236 ships in the NDRF, 44 of which comprise the Ready Reserve Force (RRF). RRF ships are maintained in various states of readiness by commercial ship managers and can sail in either 5 or 10 days. The Maritime Administration also assumed management of 8 Fast Sealift Ships from the Military Sealift Command in FY08. These vessels will become permanently assigned to the RRF commencing FY09.

The majority of RRF ships are located at port facilities along the East, West and Gulf coasts of the country in proximity to likely loadout ports established by the DOD. When activated, RRF ships are fully crewed by civilian merchant mariners working to support DOD missions. Our RRF ships are called upon to play a critical role delivering supplies to support our troops and to provide assistance during other crises. In the

Gulf War, Somalia, Haiti, Bosnia, and hurricane-ravaged Central America, the RRF carried out DOD support missions. Ten NDRF vessels participated in relief and recovery efforts during Hurricanes Katrina and Rita, where NDRF vessels served over 260,000 meals and provided 83,165 bed rotations over a six month period.

Readiness and reliability of ships in the RRF are carefully measured. Readiness is demonstrated by conducting maintenance sea trials during the year, and tested by conducting "No-Notice" turbo activations at the order of DOD. The Maritime Administration's goal is to successfully activate the RRF ships under no-notice conditions 100% of the time. In FY 2007, there were 8 such tests with all of them meeting or exceeding their activation timelines. Consistent, high operational reliability is also essential for effective support of DOD, and the goal is to maintain 98% operational reliability. During FY 2007, the RRF achieved a reliability of 99.5% with 17 ships being called and operated for 1,711 days with only 8 days of unscheduled downtime.

America's Marine Highways

Over two billion tons of goods produced or consumed in the United States move through our nation's ports and waterways each year. This volume is expected to more than double over the next 20 years. The number of waterway recreational users is also expected to grow by over 65 percent to more than 130 million annually in the next 20 years, and high-speed ferry transportation is experiencing rapid growth in response to land-transport congestion.

An important element of our Marine Transportation System (MTS) is "short sea transportation." The recently-enacted Energy Independence and Security Act of 2007 (Energy Bill) directs the Secretary of Transportation to "establish a short sea transportation program." This law represents significant progress for America's Marine Highway, and provides another valuable tool for the Department's initiative to reduce congestion.

The primary focus of the Energy Bill is to expand the production of renewable fuels, reduce dependence on oil, and address global climate change, along with increasing energy security and expanding the production of renewable fuels. When establishing the program, the Secretary of Transportation is directed to designate short sea transportation projects to mitigate landside congestion. Eight actions will be necessary to implement the bill:

- Designation of short sea transportation routes as extensions of the surface transportation system;
- Designation of projects if they offer waterborne alternatives that reduce congestion;
- Memorandums of agreement between the Secretary and other Federal entities to transport federal cargoes via designated project services;
- Consultation with Federal, state and local governments to develop strategies to encourage the use of short sea transportation for passengers and cargo;

- Consultation with shippers and transportation logistics entities to develop proposals for short term incentives;
- Establishment of a board of Federal, state and local governmental entities to identify and seek solutions to impediments hindering use of short sea transportation;
- Conducting research regarding environmental and transportation benefits, technology, vessel design and other improvements to reduce emissions, increase fuel economy and lower costs, and identify solutions to impediments to specific designated projects, and;
- Making Short Sea Transportation vessels qualified for Capital Construction Fund benefits.

The Maritime Administration has already begun work on this important initiative. We are working with the Department to implement interim regulations by March 16, 2008, as required by the Energy Bill, with final regulations due by October 1, 2008. A report to Congress is also required by December 19, 2008. Successful implementation of this program will require both commitment and resources. I have directed my staff to identify the personnel and funding requirements for submission in future budget proposals. The President's 2009 budget includes new funding of $311,000 to further initiatives to relieve congestion at the nation's ports and to promote short sea shipping. Examples of specific activities intended to increase use of America's Marine Highway include helping to identify adequate terminal facilities for proposed operations; bringing shippers and carriers tog ether to generate cargo commitments; identifying appropriate Federal cargoes; and removing other disincentives to the Marine Highway.

Shipbuilding

As you know, the Maritime Administration administers a Government guaranteed loan program, commonly referred to as the Title XI program. Title XI loan guarantees enable shipowners and shipyards to borrow private sector funds on more favorable terms than might otherwise be available. The Budget requests $3.5 million for administration of this program and to manage the existing loan portfolio.

Conclusion

Recent years have presented MARAD with significant challenges, which I expect to continue in FY 2009. I believe that the Maritime Administration is up for these challenges, and welcome the opportunity to continue our role in preserving both economic and national security. Your continued support will help us to do our part in our mission. This concludes my prepared statement. I would be happy to address any questions you may have at this time.

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